

Message Text

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ORIGIN EB-08

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FM SECSTATE WASHDC
TO AMEMBASSY BOGOTA PRIORITY

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E.O. 11652: N/A

TAGS:EAIR, CO

SUBJECT:CIVAIR: FUEL PRICE DIFFERENTIAL

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REF: (A) BOGOTA 8835; (B) BOGOTA 9770; (C) STATE 212782

1. DEPARTMENT SHARES EMBASSY CONCERN REF B TO SEE THIS
ISSUE SETTLED PROMPTLY. WE QUESTION WHETHER AVIANCA
PROPOSAL TRANSMITTED REF A PROVIDES SUFFICIENT BASIS FOR
RESOLUTION THIS MATTER. BEFORE DISCUSSING THIS MORE
FUNDAMENTAL QUESTION, DEPARTMENT WOULD LIKE TO MAKE
SEVERAL ANALYTICAL COMMENTS RE AVIANCA'S USE OF STATISTICS

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IN REF A.

2. AVIANCA BASES ITS PROPOSAL IN PART UPON ALLEGED PRICE
DIFFERENTIAL IN THE U.S. BETWEEN PRICES PAID BY BRANIFF
AND AVIANCA FOR AVIATION FUEL. DEPARTMENT FINDS SEVERAL
MAJOR FLAWS IN AVIANCA STATISTICAL ANALYSIS PARA 5, REF A,
WHICH, IN DEPARTMENT'S VIEW, SIGNIFICANTLY AFFECT

AVIANCA'S CONCLUSIONS.

3. AVIANCA USES FOUR LOCATIONS: LOS ANGELES, MIAMI, NEW YORK, AND SAN JUAN, TO COMPUTE AN ARITHMETIC AVERAGE FUEL PRICE TO AVIANCA OF 40.475 CENTS PER GALLON IN THE U.S. IT THEN COMPUTES A BRANIFF AVERAGE OF 37.82 CENTS

PER GALLON BY EXCLUDING SAN JUAN FROM THE BRANIFF AVERAGE. AS A RESULT AVIANCA'S AVERAGE INCLUDES SAN JUAN PRICE WHILE BRANIFF'S AVERAGE DOES NOT. COMPARATIVE ANALYSIS IS VALID ONLY IF BASES OF COMPARISON ARE IDENTICAL, AND THEY ARE NOT. TO BE IDENTICAL AND ANALYTICALLY VALID, BRANIFF AND AVIANCA FUEL PRICES IN US MUST BE COMPARED AT THE THREE LOCATIONS SERVED BY EACH OF THEIR SCHEDULED SERVICES, OR THE BRANIFF AVERAGE SHOULD INCLUDE PRICE IT PAYS IN SAN JUAN FOR FUEL WHICH IT PURCHASES FOR ITS CHARTER OPERATIONS THERE. THIS PRICE WAS 45.76 CENTS PER GALLON IN JULY, THE SAME TIME PERIOD FOR WHICH THE AVIANCA FIGURES ARE GIVEN. IF THIS IS DONE, THE FOLLOWING RESULTS ARE OBTAINED:

LOS ANGELES	.4083	.3784
MIAMI	.3784	.3820
NEW YORK	.3860	.3742

AVERAGE	.3909	.3782
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THIS IS AN ARITHMETIC DIFFERENTIAL OF 1.27 CENTS PER GALLON. IF SAN JUAN IS INCLUDED, THE RESULTS ARE AS FOLLOWS:

LOS ANGELES	.4083	.3784
MIAMI	.3784	.3820
NEW YORK	.3860	.3742
SAN JUAN	.4463	.4576

AVERAGE	.40475	.39805
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ARITHMETIC DIFFERENTIAL IS 0.6 CENTS PER GALLON

IT IS SIGNIFICANT TO NOTE THAT THESE ARE ARITHMETIC AVERAGES. WEIGHTED AVERAGES WHICH WOULD COMPUTE AVERAGE PRICES BY REFERENCE TO VOLUMES USED AT DIFFERENT LOCATIONS WOULD BE MORE MEANINGFUL. SUCH COMPUTATIONS WOULD BE BEYOND SCOPE OF THIS ANALYSIS. HOWEVER, IN VIEW OF FACT THAT ALMOST 50 PER CENT OF AVIANCA'S WEEKLY DEPARTURES ARE AT MIAMI, WHERE ITS FUEL PRICE IS THE LOWEST PRICE IT PAYS, (LOWER, IN FACT, THAN BRANIFF'S) IT SEEMS LIKELY THAT USE OF WEIGHTED AVERAGES WOULD FURTHER NARROW AN

ALREADY VERY NARROW PRICE DIFFERENTIAL BETWEEN US FUEL PRICES OF AVIANCA AND BRANIFF.

3. WHAT WE HAVE, THEREFORE, ARE ARITHMETIC PRICE DIFFERENTIALS OF 1.27 CENTS PER GALLON EXCLUDING SAN JUAN FROM THE ANALYSIS, AND 0.6 CENTS PER GALLON INCLUDING SAN JUAN, AND THE STRONG LIKELIHOOD THAT THE DIFFERENTIAL BETWEEN

WEIGHTED AVERAGES WOULD BE MINIMAL. IN SHORT, WE HAVE A PRICE DIFFERENTIAL IN THE US WHICH NOWHERE NEAR APPROACHES THE 13 CENTS PER GALLON PRICE DIFFERENTIAL WHICH EXISTS IN COLOMBIA. IF SAME DIFFERENTIALS WERE TO EXIST IN COLOMBIA AS EXIST IN THE US, BRANIFF WOULD PAY EITHER 43.29 CENTS PER GALLON, OR 42.60 CENTS PER GALLON.
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4. THE EARLIER BRANIFF PROPOSAL RESULTED IN FINAL PRICE TO BRANIFF OF 45 CENTS PER GALLON, A FIGURE THAT DOES NOT SEEM UNREASONABLE TO DEPARTMENT IN VIEW OF FOREGOING STATISTICAL ANALYSIS. RESULTING PRICE DIFFERENTIAL IN COLOMBIA IF BRANIFF PAID 45 CENTS PER GALLON WOULD BE 1.75 CENTS PER GALLON, I.E., CLOSER TO BUT STILL GREATER THAN PRICE DIFFERENTIAL WHICH NOW EXISTS IN US.

5. DEPARTMENT HAS LEFT ASIDE UP TO THIS POINT, QUESTION OF NATURE OF RESPECTIVE PRICE DIFFERENTIALS. EXISTING PRICE DIFFERENTIALS IN US RESULT PRIMARILY FROM MARKET FORCES, A FACT SEEMINGLY ACKNOWLEDGED BY AVIANCA IN PARA 6, REF A. FACT THAT BRANIFF ACTUALLY PAYS MORE IN ONE US LOCATION THAN AVIANCA, BY AVIANCA'S OWN FIGURES, APPARENTLY SUBSTANTIATES THIS. PRICE DIFFERENTIAL IN COLOMBIA, HOWEVER, IS OF DIFFERENT CHARACTER. DEPARTMENT MAINTAINS (REF C), THAT DIFFERENTIAL IS RESULT OF PRICE DISCRIMINATION, WHICH VIOLATES FAIR AND EQUAL OPPORTUNITY CLAUSE OF ARTICLE 8 OF THE US-COLOMBIA AIR SERVICES AGREEMENT OF 1956. DEPARTMENT RECOGNIZES THAT SYSTEM OF OFFICIAL CONTROL OF FUEL PRICES WHICH EXISTS IN COLOMBIA IS DIFFERENT FROM SYSTEM OF FREE ENTERPRISE EXISTING IN US. WE ARE NOT REQUESTING THAT COLOMBIA APPLY FREE ENTERPRISE SYSTEM TO COLOMBIAN SITUATION. DEPARTMENT IS MERELY REQUESTING THAT COLOMBIAN SYSTEM OF OFFICIAL CONTROL NOT RESULT IN PRICE DISCRIMINATION WHICH VIOLATES COLOMBIAN OBLIGATIONS UNDER THE BILATERAL.

6. BRANIFF HAS RESPONDED TO REF A IN OCTOBER 6 LETTER TO DEPARTMENT, A COPY OF WHICH WAS SENT TO EMBASSY. BRANIFF'S POSITION AS EXPRESSED IN LETTER HAS NOT CHANGED, IN ADDITION, OTHER AGENCIES INVOLVED, PRIMARILY COMMERCE AND LIMITED OFFICIAL USE

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TRANSPORTATION, CONTINUE TO SUPPORT AND ENCOURAGE STRONG EFFORTS TO ELIMINATE THIS PRICE DISCRIMINATION.

7. DEPARTMENT BELIEVES THIS MATTER CAN BE RESOLVED. DEPARTMENT VIEWS AVIANCA PROPOSAL TO REDUCE BRANIFF PRICE TO 48 CENTS PER GALLON AS A POSITIVE FIRST STEP IN PHASED REDUCTION OF EXISTING PRICE DIFFERENTIAL. DEPARTMENT WOULD EXPECT THAT REDUCTION IN PRICE TO 48 CENTS PER GALLON WOULD BE IMPLEMENTED QUICKLY, I.E., BEFORE THE END

OF THE 4TH QUARTER. LAST STEP IN PHASED REDUCTION SHOULD OCCUR IN 1ST QUARTER OF 1978, AND SHOULD RESULT IN FINAL PRICE TO BRANIFF TO 45 CENTS PER GALLON. DEPARTMENT EMPHASIZES THAT THESE TWO STEPS SHOULD BE LINKED AS INTEGRAL PARTS OF OVERALL SETTLEMENT OF PROBLEM.

8. DEPARTMENT HAS NO WISH TO SEE AIR SERVICES BETWEEN US AND COLOMBIA CONTINUE TO BE JEOPARDIZED BY THIS PROBLEM. ON OTHER HAND, DEPARTMENT DESIRES ACHIEVE AN ACCEPTABLE SOLUTION TO THIS LONG-STANDING PROBLEM OF FUEL PRICE DISCRIMINATION.

9. ACTION REQUESTED: EMBASSY REQUESTED TO PASS SUBSTANCE THIS MESSAGE TO APPROPRIATE GOC OFFICIALS, DEPARTMENT POSITION RE DESIRED FINAL OUTCOME OUTLINED PARA 7 ABOVE. ANY COLOMBIAN RESPONSE SHOULD BE DIRECTED TO USG, NOT TO BRANIFF.

10. FYI. FEA INFORMS DEPARTMENT THAT AVIANCA BASE PERIOD ALLOCATION, AT CURRENT AVIANCA RATE OF USAGE, WILL RUN OUT APPROXIMATELY DECEMBER 10, 1977. END FYI.

11. COMMENT: (A) DEPARTMENT HAS NOT COMMENTED EXTENSIVELY ON AVIANCA PROPOSAL CONTAINED REF A BECAUSE DEPARTMENT VIEWS IT ONLY AS USEFUL FIRST STEP, NOT AS FINAL OUTCOME. STATISTICAL COMMENTS CONTAINED ABOVE DEMONSTRATE WHY LIMITED OFFICIAL USE

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AVIANCA PROPOSAL CAN BE VIEWED ONLY AS A FIRST STEP AND WHY DEPT SUPPORTS PRICE OF 45 CENTS PER GALLON AS REASONABLE OUTCOME, (B) EMBASSY SHOULD BE AWARE THAT LAST YEAR AVIANCA CARRIED 80 PER CENT OF THE MARKET BETWEEN THE US AND COLOMBIA. FACTS SUCH AS THESE ALWAYS USEFUL IN INJECTING PERSPECTIVE AND BALANCE INTO DISCUSSIONS WITH GOC OFFICIALS, (C) EMBASSY SHOULD ALSO BE AWARE THAT CAB

CURRENTLY HAS BEFORE IT AVIANCA APPLICATION TO OPERATE 4
CHARTERS IN JANUARY-FEBRUARY 1978, PLUS APPLICATION TO
SERVE LONDON FROM SAN JUAN, PUERTO RICO. AEROCONDOR HAS
APPLICATION BEFORE CAB TO ALLOW IT "BLIND SECTOR" OR
COMMINGLING RIGHTS ON BARRANQUILLA-PORT-AU-PRINCE-SANTO
DOMINGO-MIAMI RUN. DEPARTMENT PREPARED TO URGE CAB TO ACT
EXPEDITIOUSLY ON THESE MATTERS IF GOC REACTS POSITIVELY
ON FUEL PRICE ISSUE. WE WOULD APPRECIATE EMBASSY ASSESS-
MENT OF LIKELY COLOMBIAN REACTION TO PROPOSAL OUTLINED
THIS PARAGRAPH C. VANCE

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